

# **UNITED STATES SEED ACT ASSISTANCE STRATEGY**

**FOR  
POLAND**



**1993-1995**

**Submitted by American Embassy Warsaw  
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## **STRATEGY UNITED STATES ASSISTANCE FOR POLAND 1993-1995**

The social transformation of Central and Eastern Europe requires both an economic and a political revolution. Neither will be successful without the other. Poland has made great progress in both areas, but neither is yet fully institutionalized. Price liberalization, free trade and macroeconomic stabilization policies have all set Poland firmly on a free market course. The private sector has responded vigorously and satisfactory progress has been made in foreign trade. Yet, the economy still suffers from the burdens of the past: state owned enterprises that have failed to respond adequately to new market incentives, underdeveloped financial services, and a fiscal crisis which is aggravated by the lack of modern tax and social benefits systems. On the political front, freely elected institutions at the local and national levels are in place. However, the commitment to a pluralistic democracy is not yet fully rooted in the political attitudes and institutions of Polish society. Democratic processes must prove themselves by successfully resolving the problems of greatest relevance to society.

### **U.S. ASSISTANCE IN PERSPECTIVE**

Poland is a big country. Its 38 million people are generally well educated. Its gross domestic product is on the order of \$80 billion. It has a current account surplus. In 1992, its exports total approximately \$16 billion, predominantly into competitive hard currency open markets. Its State Budget is about \$30 billion. At all levels of government, officials hold office as a result of free competitive elections. In short, Poland is a developed country, albeit one with severe distortions, and one which is relatively poor by Western European standards.

Democracies and developed economies around the globe have experienced on a smaller scale the need for structural adjustments similar to the ones Poland is undergoing. They have had to restructure domestic steel, coal, textile, footwear, shipbuilding, and other manufacturing industries, and move hundreds of thousands of workers into new occupations. Some have had to clean up financial institutions gone awry, and privatize industries foundering under state ownership. Most have imposed higher environmental and occupational health standards on old, often antiquated

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industries. At one time or another, most have adjusted their political systems, sometimes substantially, and have restructured pension, health care finance, and tax systems.

The difference is that most societies have been able to face these issues sequentially, rather than all at once. Frequently, they have enjoyed the political luxury of doing so slowly, with prolonged subsidies to those adversely affected. Poland, like other post-Communist countries, does not have this option: the accumulation of problems must be tackled more or less concurrently, with few resources to compensate those dislocated. Poland's record of tough decisions, therefore, is especially impressive in terms of what other democracies have had the political will to do. That said, there is little precedent for democratic systems successfully facing so many tough decisions in such a short period, let alone doing so while developing their institutions concurrently.

Poland will itself have to solve most of its problems (and pay for their solution) over time. The importance of increased trade and private investment even now dwarfs aid. American assistance, last year totaling \$130 million, will be most helpful if it is focused on urgent problems which absolutely must be solved for Poland to develop a strong market economy while strengthening its democratic institutions. The United States should not dissipate limited resources by trying to address every problem. Rather, American assistance should be carefully focused on vital objectives in economic restructuring and in helping Poland develop an enduring, resilient democracy.

The U.S. also has substantial commercial interests in a strong, free market Polish economy. With a population of 38 million, and annual imports of nearly \$15 billion, Poland offers numerous opportunities for U.S. exporters. Moreover, U.S. businesses are already viewing Poland as a stable base from which to make forays into the potentially lucrative markets of the CIS, as well as Western Europe. By helping Poland become a growing economy, the U.S. government can help ensure that U.S. business has a full and fair opportunity in these vast markets. Finally, assistance itself promotes U.S. business growth by fostering linkages through the use of U.S. firms to provide technical assistance and training to Polish enterprises.

#### **ROLE OF OTHER MAJOR DONORS AND LENDERS**

The U.S. Government coordinates its activities with other major donors and lenders in order to avoid duplication, and to increase opportunities to maximize the value of assistance. The other major donors and lenders in Poland currently are the World Bank, the European Bank for Reconstruction and Development, the European Community, and other members of the G-24.

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**Recently in Brussels, G-24 senior officials agreed to decentralize the coordination of most donor assistance from Brussels to the Central and East European countries. The U.S. had originally proposed this approach in order to improve the interaction and coordination of the donors in-country, increase the involvement of the recipient governments and cut the cost of meeting in Brussels.**

**USAID/Poland will continue to take an increasingly active role in coordinating its assistance activities with other donors, and calling meetings of specific assistance implementors.**

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## ***U.S. ASSISTANCE STRATEGY***

The over-riding U.S. Assistance policy goal is to support achievement by Poland of sustainable broad based economic growth with an open market and democratic system. Over the next three years, the U.S. assistance strategy to help Poland achieve this goal gives highest priority to the following objectives:

- (1) Supporting private sector development.**
- (2) Assisting development of the financial sector.**
- (3) Helping transform the public sector to better support democratic development and a market economy.**
- (4) Strengthening institutions essential for sustainable democracy.**

These objectives are inter-related and mutually reinforcing. They represent critical areas in which action is needed for Poland to complete the political and economic reforms it has initiated and achieve economic growth. Much has been accomplished but great hurdles remain. Without economic growth, the political will to pursue and sustain structural reforms may unravel. Similarly, undertaking those structural reforms requires a broad public consensus, which can only be maintained through a healthy democratic political system. Expansion of the private sector is important to create an efficient economy and achieve growth. Yet, unless the current crisis in the financial sector is resolved, the private sector cannot reach its potential. Efficient deployment of resources requires well developed financial markets. Likewise, business cannot be expected to grow amidst excessive legal and regulatory constraints. Nor can it operate effectively under the weight of large fiscal deficits financed by government borrowing and in an environment of inflationary uncertainty. Finally, the reform of public administration and public finance at both national and local levels is critical to improve the capacity to implement the reforms needed to support a market economy and a democratic society.

Full development of the private sector and financial services, as well as meaningful public sector administrative and fiscal reform, will require several years. As Poland achieves a developed market system with democratic institutions, it should also achieve stability and prosperity. This should allow a number of activities to begin phasing out by mid-decade, and an end to large-scale U.S. assistance within the next five years, assuming no unforeseen political or economic reversals. This paper covers the period 1993

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through 1995 and highlights the principal activities which support the priority objectives of the U.S assistance strategy.

### **1. Supporting Private Sector Development**

The strategy for promoting private sector development aims to reduce the numerous constraints limiting private sector investment and growth, help accelerate the pace of completing privatization transactions, and improve Polish entrepreneurial and private sector capacity.

#### **Removing Barriers and Improving the Business Climate**

The barriers to private investment (both domestic and foreign) and growth include inadequate legal, regulatory and administrative structures, weak financial markets and an unhealthy banking system, lack of strategic planning and marketing skills, poor labor/management relations, limited labor mobility due to unavailable or inadequate housing, external market restrictions on key Polish products, weak investments in environmental and physical infrastructure and inadequate agricultural distribution and marketing systems.

Small and medium sized firms are particularly hampered by such constraints and barriers. Their owners often lack the resources to overcome these barriers. Yet it is precisely through rapid growth of new and existing small and medium sized enterprises that the Polish economy can generate new jobs and economic activity. Therefore, particular attention must be directed at making sure that the overall business climate is appropriate for smaller firms, and conducive to their growth.

In conjunction with the multilateral banks and with other bilateral assistance agencies, the United States should primarily provide technical assistance and training, with a priority on integrating activities so that key problems get focused attention.

U.S assistance will:

- Assist the reform and implementation of the legal and regulatory framework to promote a free market and reduce impediments to investment through:

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- expert advice in such key legal and regulatory fields as anti-monopoly policy, contracts and commercial law;
  - advice to the relevant Ministries (i.e. Finance, Environment and Industry) on realistic energy pricing to both producers and consumers and on costing environmental consequences;
  - advice to national and local housing authorities on cost recovery oriented project planning.
  - advice to labor ministry, industry and unions on labor/management relations.
- Provide policy and technical advice to relevant ministries and local administrators on key productive sectors including:
    - food agricultural production and marketing systems which encourage efficiency and reward high quality;
    - private housing construction management and real estate market development;
    - energy and environment efficiency and regulation.

### **Privatization and Restructuring**

Sustained growth in any economy requires both creation of new enterprises and industries, and periodic restructuring of established ones to adjust to changing circumstances. Under the previous command economy most sectors of the economy were almost totally dominated by monopolistic firms, all of which require at least partial restructuring to even survive in a market economy. Most require major changes, including privatization of ownership and management.

Restructuring and privatization of the state enterprises is a massive problem not only technically, but politically and socially. Polish experience is that progress is uneven: some sectors are largely privatized, while others are barely beginning the process. Expert assistance from abroad speeds up the process, making it easier for the government to make unpopular decisions.

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U.S. assistance will:

- Promote privatization using both resident and short-term advisers, with particular attention to:
  - accelerating the pace of privatization of those industries already analyzed for sale by providing expertise to help conclude transactions;
  - assisting in restructuring select enterprises and sectors to the extent such restructuring may have a broad impact;
  - helping create the conditions for privatization by assisting in the development of the institutional, legal, and regulatory environment for private sector growth.
- Provide technical assistance in the restructuring and privatization of key sectors, to hasten movement toward market pricing through:
  - US-Poland electric power partnerships focused on more efficient management and operations and rational pricing schemes;
  - advice to the relevant Ministries on power pricing and demand management;
  - expertise in housing marketing;
  - technical assistance to ensure that long-term environmental considerations are integrated into the privatization process and that firms meet international environmental standards.

#### *Assisting Entrepreneurs*

Although entrepreneurship has developed impressively, managers and entrepreneurs need to acquire business skills and experience so that the private sector can continue to grow and become internationally competitive. Strategic planning, marketing, accounting, general management—all are necessary for today's competitive entrepreneur. Short courses, academic programs, and consulting firms recently have proliferated throughout Poland, but needs still far outrun supply. Experts are needed to



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**work side by side with Polish managers within companies assisting with specific tasks and general management. The success of entrepreneurs also depends on the development of vibrant capital markets. The U.S. can help by providing both technical assistance in this area, as well as capital investment via the Enterprise Fund.**

**In addition, the promotion of foreign investment can indirectly assist the local private sector. Foreign investors typically require the same kinds of legal, regulatory, and physical infrastructure that are vital for domestic entrepreneurs and investors, and therefore their presence serves as an impulse for changes in the business environment. Furthermore, some level of international business presence in an economy is often necessary to spur the domestic producers to become more competitive, through the managerial, marketing, production innovations, and environmental norms introduced by international investors.**

**U.S. assistance will:**

- **Provide capital investments and loans to commercially viable businesses, through resources already committed to the Polish American Enterprise Fund.**
- **Strengthen the creation of individual enterprises through:**
  - **providing short-term technical expertise for assistance in areas such as marketing, management, production, and accounting;**
  - **making available resident business services for small and medium sized enterprises in areas such as formulating business and loan proposals, and on-line resource information on the Polish private sector;**
  - **providing long-term resident advisors concentrating on managerial and particularly, marketing skills.**
- **Increase management skills of private sector managers and establish self-sustaining management training institutions; e.g. U.S. based training programs and curriculum and faculty training advisors three or more Polish training institutions.**
- **Promote U.S. trade and investment by:**

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- providing grants for feasibility and marketing studies to U.S. investors/exporters particularly those entering the energy, environment, telecommunications, and agro-business infrastructure markets.
- identifying Polish companies looking for U.S. business partners, especially in the foregoing sectors, and making their interests known to the American business community.
- widening the U.S. commercial presence and introducing American technology through matching grants to U.S. trade associations and other non-governmental organizations in these key sectors.

## **2. Assisting Development of the Financial Sector**

The banking system and financial markets remain key barriers to economic growth. Non-performing loans to state enterprises constitute a serious threat to the banking system. Commercial banks need capital to avert an immediate crisis. They also need technical expertise both to improve debt collection, through loan restructuring and work-out, and to develop systems for mortgage and construction lending. Polish banks also need Western expertise in the adoption of sound lending practices. More sophisticated analysis of potential clients will not only reduce the incidence of poor loan-making, but stimulate lending to businesses with sound business plans and economic potential. Western bankers need to work directly with Polish counterparts to transfer the skills necessary for successful commercial banking and improved bank supervision capacity.

The financial market also needs considerable broadening. Small credit institutions such as credit unions, cooperatives, and savings and loans are badly under-represented in Poland. As a result, savings mobilization has been limited as has access to credit for large purchases or small business starts. The problem is especially acute in rural areas.

Finally, secondary capital markets must be created for state and corporate debt, and equity markets must be expanded. Once again, technical assistance is necessary, both for logistical set-up and for proper regulation.

**U.S. assistance will:**

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- **Help recapitalize and privatize a select number of restructured commercial banks through the reprogramming of \$200 million in Stabilization Fund resources, deployed in conjunction with other donors and IBRD structural adjustment loans.**
- **Accelerate the development of Poland's capital market by strengthening the primary and secondary securities market through assistance to the Polish Securities Commission and Warsaw Stock Exchange on legal, regulatory and investor education/protection.**
- **Assist the banking industry in responding to their role in a capital market environment in such ways as long-term advisors in commercial banks and technical assistance in facilitating investment bank capabilities.**
- **Assist with bank supervision, management and training:**
  - **technical advisors and U.S. and in-country training will help the Polish banking community set up on its own training institutions with programs on banking law, regulation, credit analysis and general banking operations;**
  - **technical assistance and training to the Central Bank to strengthen its banks supervisory role.**
- **Provide technical assistance to strengthen and restructure rural financial institutions (cooperative banks), and establish alternative financial institutions (savings and loans, credit institutions) for consumers and small savers, e.g.; U.S. private sector consumer and agricultural coop specialists working with local farmer organizations and former state owned banks.**
- **Help establish a market-based mortgage and construction lending system through:**
  - **providing initial capital through housing guarantees which compliment large IBRD and EBRD loans;**
  - **training in mortgage institutions and banks both at primary and secondary level.**

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### **3. Helping Transform the Public Sector to Better Support Democratic Development and a Market Economy**

Facing a crisis of decreasing revenues and ever increasing demands for social assistance, the Government of Poland faces difficult choices. It must attempt to increase revenues as well as lower the cost of government supplied social benefits, if it is to come close to balancing the budget and slowing inflation. In 1992, the number of Poles receiving government pensions or unemployment payments -- 11 million -- nearly equaled the number of wage earners. Democracy is also threatened by a lack of confidence in the structures and practices of government. A devolution of power through the regional to the local level promotes participation, responsiveness to local needs and accountability of those who govern. A key objective of public administration and political process and governance programs is to empower local governments and those they govern.

#### **Improving Public Administration**

Reform of public sector governance and policies is necessary to successfully implement needed policies and also to build public confidence in the new democratic system. This is not only a question of efficiency. The Communist era provided a heritage of secretive and over-centralized decision making, and a government unresponsive to public opinion. Necessarily, most government employees continue from that era. Therefore, sustained effort will be needed to build transparency into government decision making, ensure integrity among public officials, and create truly independent local government.

U.S. assistance will:

- Strengthen the financial and institutional capacity of the national and local governments to carry out their responsibilities, through short-term and resident advisors and training on key problems, leading to institutionalized, Polish public administration programs.
- Assist the central government to decentralize authority and establish an appropriate framework for central-local fiscal relations through technical assistance in coordination with the World Bank program and other donors.

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- Assist local governments to mobilize financial resources and to implement systems of cost recovery for housing related services and infrastructure through:
  - short-term advisors, resident urban policy specialists;
  - municipal finance advisors.

#### Reforming the Social Benefits System

An effective program of well-designed social assistance is a necessary condition for success of the economic reform program, as those affected by the restructuring must be provided with the means to survive and take advantage of emerging opportunities. As important as balancing the budget is to Poland's economy, equally important is the provision of financial and social support to the truly needy. To achieve both goals, the Government of Poland must better target its expenditures.

U.S. assistance will target:

- Technical assistance and advisors to the Ministries of Labor and Finance on pension reforms, employment services, and on unemployment and worker compensation systems. Our inputs will complement World Bank and EBRD related activities.
- Health systems program specialists to the Ministries of Health and Finance, and health care providers to design alternative health financing cost sharing reforms, and improve the effectiveness and efficiency of health care and input industries.

#### Strengthening the Tax System

What is needed is a system which raises revenues without seriously constraining or distorting economic activity.

U.S. assistance will include:

- Assisting in developing a tax system appropriate for a free market economy and an open society with decentralized government by:

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- providing advice in tax examination, collection and auditing;**
- assisting to help make operational, the new Automatic Data Processing system for the tax offices;**
- assisting the establishment of the taxpayer service system;**
- providing assistance in the further development of tax policies.**
- assist in implementing a VAT.**

<b>Strengthening Institutions Essential for Sustainable Democracy.</b>
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**Democracy cannot survive under conditions of a deteriorating economy or in the throes of economic instability. The converse is equally true. Targeted, well conceived projects can provide significant help to the process now under way.**

**Poland no longer requires democratic initiative projects focusing on such basics as free and fair elections. Polish democracy is developing, however, and remains vulnerable to an authoritarian reversion. Now begins the longer-term process of rebuilding essential democratic institutions and habits that were lost during four decades of communism, as well as developing bottom up democratic practices. Assistance should focus on the political process, public sector reform and strengthening the foundations of a civil society. This should include improving communications within all levels of government and with NGO's and PVO's; strengthening free, objective and responsible media; and educational reform. The strategy emphasizes communication at the local level, perhaps reflecting the American experience that in the end all politics is local and that it is at the local level that political responsiveness will be most severely tested, and where contact with the outside world is the least.**

**U.S. assistance will:**

- Assist development of responsiveness at local and national levels, through:**
  - technical assistance to Polish PVO's and non-governmental organizations (such as unions or foundations) in developing a viable constituency and effectively communicating its needs to the government;**

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- help design civic education and other activities which help encourage dialogue between citizens and their elected and appointed officials.**
- Foster a democratic and objective media which understands its public responsibilities through the use of short-term advisors, U.S. and local training.**
- Provide training (primarily at the local level) for supporters of all political parties in methods of effective organization and communication in an open, democratic society.**
- Assist the legal and judicial system in learning how to deal with economic and organized crime found in an open, free market economy, including issues of public integrity, eg; short-term advisers, conferences and U.S. training will be provided.**

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